LEGISLATIVE
AUDIT
COMMISSION

Review of
Department of Labor
Two Years Ended June 30, 2003

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REVIEW: 4196
ILLINOIS DEPARTMENT OF LABOR
TWO YEARS ENDED JUNE 30, 2003

FINDINGS/RECOMMENDATIONS - 6

ACCEPTED - 2
IMPLEMENTED - 4

REPEATED RECOMMENDATIONS - 1

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 2

This review summarizes an audit of the Illinois Department of Labor for the two years ended June 30, 2003, filed with the Legislative Audit Commission March 18, 2004. The auditors performed a compliance audit in accordance with *Government Auditing Standards* and State law.

The primary responsibility of the Department of Labor is to administer and enforce various Illinois labor laws such as the regulation of wages, hours, working conditions, minors in the work force and the licensing of employers in certain businesses. The Department regulates amusement rides, employment agencies, and nurse registries, and administers the Displaced Homemakers Program. The Department promotes and publicizes Illinois labor law information to employers and employees, investigates complaints about potential employer violations, and conducts periodic inspections of work sites for compliance with safety laws. Upon request of the parties involved, the Department conducts hearings and appoints arbitrators for labor cases. A summary of operating statistics, prepared from Department records, is presented in Appendix A.

Mr. Robert M. Healy served as Director until May 2002. Mr. Michael J. Fenger was appointed Director in February 2003 and then resigned in October 2003. Ms. Esther Lopez has served as Acting Director since that time. Ms. Lopez's starting date with the Department was September 2003.

The average number of employees during the fiscal years was:

Division	**2003**	**2002**	**2001**
State Officers	3	3	4
Regular Positions:			
General Office	14	16	15
Displaced Homemaker	1	1	1
Progress of Women & Minorities	3	3	3
Public Safety	21	22	22
Fair Labor Standards	49	54	54
Child Labor Enforcement	2	2	4
TOTAL	**93**	**101**	**103**

Expenditures From Appropriations

The General Assembly appropriated $6,856,400 to the Department of Labor for FY03. All but $158,700 was from the General Revenue Fund. Appendix B summarizes these appropriations and expenditures for the period under review. Total expenditures for the Department decreased from $6,654,761 in FY02 to $6,413,725 FY03, a decrease of $241,036, or 3.6%. The decrease is attributable to fewer employees, but generally there was decreased spending in almost every line.

Lapse period expenditures for FY03 were $214,394, or 3.3% of total expenditures.

Property and Equipment

Appendix C provides a summary of property and equipment for FY03 and FY02. Property and equipment, for which the Department was accountable, decreased from $735,918 as of July 1, 2001 to $694,372 as of June 30, 2003.

Cash Receipts

Appendix D summarizes cash receipts of the Department for the last three fiscal years. Two of the funds ordinarily present in cash receipts are considered unaudited because the amounts could not be obtained from the agency due to lack of supporting documentation. Reconciliation of cash receipts to deposits remitted to the State Comptroller were $1,831,064 for FY03 compared to $1,766,373 for FY02, a $64,691, or 3.7% increase from FY02 to FY03.

Other Funds

The Department administers funds which are held in the State Treasury. The Special State Trust Fund is a nonappropriated fund which is custodial in nature and used to account for certain monies collected from various employers by the Department of Labor as agent for individual claimants who have been paid wages at substandard rates. Monies collected are remitted to the claimants.

The Child Labor and Day and Temporary Labor Services Enforcement Fund was established to account for monies collected under the civil penalty provision of the Child Labor Act and the Day and Temporary Labor Services Law. The funds collected are subject to legislative appropriation for activities or purposes related to the enforcement of the Act.

The Department received a grant directly from the U.S. EPA to focus on promoting services and providing current information to school officials related to indoor air quality.

Accountants' Findings and Recommendations

Condensed below are the six findings and recommendations presented in the audit report. There were two repeated recommendations. The following recommendations are classified on the basis of information provided by Bob Blinn, Chief Fiscal Officer, in a memo received via electronic mail on April 21, 2004.

Accepted or Implemented

1. Comply with the State Records Act and applicable SAMS procedures to ensure complete and accurate reporting, including the strengthening of controls over recordkeeping and fiscal reporting functions.

<u>Findings:</u> The Department lacked adequate documentation for amounts reported in the Agency's GAAP packages. In FY03, no Agency records were available to support certain cash balances, payables, receivables, and other obligations. Various amounts were based on Comptroller reports and prior year estimates, and grant revenue was overstated. In FY02, capital outlay expenditures were incorrectly reported.

Department management stated the exceptions were oversights which occurred while other priorities were given precedence.

<u>Response</u>: Implemented. Proper timely reconciliations of expenditures, receipts and receivables are prepared each month.

The strengthening of the controls over record keeping and fiscal reporting function has been achieved.

2. Comply with established SAMS procedures regarding the reconciliation of internal expenditure records with those of the Comptroller to ensure the accuracy of information. Continue to make efforts to properly segregate duties in order to maintain effective internal control over the recordkeeping and accounting duties concerned with asset custody and physical control over expenditures, or establish appropriate compensating controls. (Repeated-1999)

<u>Findings:</u> The Department failed to document expenditure reconciliations comparing Agency records with those of the Comptroller. In addition, the Department lacked adequate segregation of duties and compensating controls over expenditure functions.

Reconciliations for expenditures had not been performed since October 2002. Agency records for FY03 showed total expenditures of $7.2 million, which was $59,507 more than expenditures per the Comptroller. A review of internal controls revealed that the fiscal officer is primarily responsible for the preparation and approval of journal entries, the approval of vouchers for payment, as well as the reconciliation of Agency records to Comptroller reports.

Department management stated that personnel constraints precluded timely documentation of reconciliations, as well as the adequate division of duties within the expenditure processing functions.

<u>Response</u>: Implemented. Timely monthly reconciliation with adequate documentation is now being prepared.

Adequate segregation of duties has been achieved by having the director sign all voucher requests greater than $1,000. Between this new control and the adequate control over payroll, over 96% of disbursements now have improved internal controls.

3. Comply with the SAMS procedures regarding the reconciliation of internal revenue records with those of the Comptroller to ensure the accuracy of information and the timely filing of receivable reports. In addition, the Department should comply with the State Records Act to make certain agency files are properly retained.

<u>Findings:</u> The Department failed to perform timely monthly revenue reconciliations comparing Agency records with those of the Comptroller for FY03. In addition, the Department did not timely file receivable reports or maintain arbitration case files. The following exceptions were noted:

- No reconciliations for revenues were performed comparing Agency records with those of the Comptroller for FY03.
- Five of 24 quarterly accounts receivable reports for the Department's three funds were not filed timely.
- 14 of 25 arbitration receipts selected for testing could not be located.

<u>Response</u>: Implemented.

- Reconciliation of revenue has been performed on a timely basis since July 1, 2003.
- New software has been developed and implemented (January 1, 2004). This new system will permit the accounting staff of two to maintain timely records effectively and efficiently.
- Quarterly account receivable reports will be filed on a timely basis.
- Adequate control over arbitration receipts has been implemented.

4. Implement procedures to ensure that agency records are complete and accurate.

Accepted - concluded

<u>Findings:</u> The Department lacked supporting documentation for the Special Trust Fund. According to the Comptroller's reports, the Fund's June 30 cash balances were $1,030,409 in FY02 and $1,150,793 in FY03. The following exceptions were noted:

- No detail of receipts was maintained for FY03.
- An unknown variance of $41,852 existed between the FY02 listing of individual claimants balance and the Comptroller's cash report.
- When testing the listing of individual claimants, the auditors noted that balances totaling $902 did not agree to the case file.
- For FY03, the listing of individual claimants had not been updated since 12/31/02. No testing between the Comptroller's cash report and the individual listing of claimants could be performed for FY03 since records were not updated.

<u>Response</u>: Implemented.

The Special Trust Fund (STF) records are reconciled monthly in a timely manner.

Effective January 1, 2004, the Department's new software maintains the fund balance, disbursement and cash receipts on a daily basis.

5. Comply with the Toxic Substances Disclosure to Employees Act which includes implementing specific procedures to provide for the timely collection of updated material safety data sheets from employers. Take affirmative measures to increase control, facilitate compliance and enforce employer responsibilities with regard to the Illinois Worker Right to Know laws to ensure the availability of accurate information regarding hazardous substances in the workplace.

<u>Findings:</u> The Department did not implement adequate procedures to monitor the timely submission of current toxic substances data sheets by public employers. The auditors' review of case files revealed that 18 of 25 failed to contain a current listing of material safety data sheets.

The Toxic Substances Disclosure to Employees Act requires that every manufacturer shall submit to the Director annually an alphabetized list of material safety data sheets for every product it produces, imports, or supplies. Further every employer shall submit to the Director annually an alphabetized list of substances, compounds, and mixtures for which the employer has acquired material safety data sheets. Additionally, the Director is required to maintain the listing received from employers for a minimum of five years.

<u>Response</u>: Accepted. The Department has increased outreach to required filers. We have placed our requirement notice on our website.

All complaints received from employees are investigated and followed up immediately upon receipt.

6. Strengthen controls over State property reporting, and comply with the State Property Control Act and applicable SAMS procedures to ensure timely and accurate reporting of State property information. Develop procedures to document the location of equipment used outside the office locations.

Findings: The Department did not maintain accurate property control records or submit accurate quarterly property reports to the Comptroller, resulting in an overstatement in the Department's property balance at 6/30/03. In addition, the Department did not submit quarterly property reports timely. The following exceptions were noted:

- Property inventory inaccuracies were noted. Ten of 40 items selected from the floor were not on the inventory listing; seven of 30 items selected from the list were not found; and five of the 70 items selected were assigned to different locations.
- Due to certain errors, property records were understated or overstated.
- Three of eight quarterly property reports were filed late.
- Lease agreements were not on file at the Department.
- The Department failed to report an equipment trade-in to CMS.

Response: Accepted.

- The Department will maintain adequate records for property and related reporting. Reporting will be submitted on a timely basis.
- The Department has developed and implemented new software to ensure the physical location of property is accurate.
- The Department will conduct two physical inventories each year.
- Copies of all three leases are now available in the Department.
- Equipment trade-ins will be reported to CMS.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make "quick purchases," including but not limited to items available at a discount for a limited period of time.

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY02 and FY003, the Department did not file any affidavits for emergency purchases.

Headquarters Designations

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The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

The Department of Labor indicated as of July 2003, the Department had 46 employees assigned to locations other than official headquarters. On January 1, 2003 there were 23 employees assigned to locations other than official headquarters.

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